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ECONOMIC RETRENCHMENT FOR NORTH KOREA IN 1964



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ECONOMIC RETRENCHMENT FOR NORTH KOREA IN 1964

A change in the direction of the economic development plan of North Korea for 1964 recently announced by planning chief Chong Chun-taek -- from emphasis on expansion in heavy industry to production of consumer goods and support of agriculture and export industries -- greatly diminishes the possibility that the regime will fulfill the over-all goals of its ambitious Seven Year Plan (1961-67). Although the rate of economic growth will slacken next year, this retrenchment is not indicative of any basic instability in the North Korean economy, and it is likely that the reduced goals of the economic plan for 1964 will be met. This shift in economic priorities, which comes at the end of a year marked by apparent indecision in economic planning and a reduction in the rate of industrial growth, reflects continuing problems in the allocation of material and manpower resources and doubts in P'yongyang concerning either the desirability or the reliability of the USSR and the European Satellites as key sources of trade and aid for future economic development. The change in priorities in the 1964 plan indicates that North Korea intends to become less dependent on the USSR for industrial imports and for economic assistance. So far, there is no official change in economic relations between the two countries, and there is some evidence that economic aid and military assistance from the USSR continued at least as late as May 1963. It is doubtful that Communist China could supplant the USSR immediately as a supplier of North Korean industrial imports, and several years would be required before any other sources of such imports could be developed. Furthermore, because military supplies and equipment have come solely from the USSR, the fighting efficiency of the North Korean armed forces may be expected to decline if the flow of this materiel is reduced.

1. Economic Plans for 1964

According to Kim Il-song, "the core of the 1964 plan will lie in consolidating the foundation of a self-sufficient economy which has been laid,

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utilizing it more legitimately, and increasing consumer goods production on a large scale" 1/ The prime objectives of the plan are (a) to expand the output of consumer goods; (b) to develop mining and forestry in order to "build raw material bases"; and (c) to improve agricultural production by increasing the proportion of rice in the total grain harvest, by increasing meat production, and by expanding the output of commercial crops. A comparison of the claimed output of important industrial, consumer, and agricultural products in 1962 with planned production for 1964 and 1967 (the final year of the Seven Year Plan) is given in the table. 2/

a. Industry

As indicated in the table, some of the essential industries that are in need of foreign assistance from the Soviet Bloc in order to bring capacity up to the levels contemplated by the final year of the Seven Year Plan (electric power, iron and steel, machine building, and construction materials) are to remain at about the same level in 1964 as in 1962, and some are to produce even less in 1964 than the claimed output of 1962. Production of consumer goods (textiles, footwear, sewing machines, and bicycles) is to register impressive percentage gains in 1964 compared with 1962, but the impact of these increased supplies on the prevailing low levels of living of North Korea's 11.6 million people will be negligible. The practice, started in mid-1963, of producing consumer goods in large, centrally controlled factories such as the Huichon machine tool plant and the Hwanghae iron works in order to supplement the output of small local factories is necessary to insure the higher production targets for 1964 and probably will help to improve the generally poor quality of North Korean consumer goods.

The mining of coal and metallic ores again will be emphasized in 1964, and an expansion of smelting facilities also is planned. Anthracite coal, iron ore, copper, lead, zinc, and precious metals are important export items for North Korea in trade with both Communist and Free World countries.

North Korea: Claimed Production of Major Products
1962 and Plans for 1964 and 1967

<u>Category and Commodity</u>	<u>Unit of Measure</u>	<u>1962 Claim</u>	<u>1964 Plan</u>	<u>1967 Plan</u>
Electric power	Billion kilowatt-hours	11.44	10.72	17
Iron ore	Million metric tons	3.34	4	7.2
Pig iron and sponge iron	Thousand metric tons	1,213	1,270	2,300
Finished steel	Thousand metric tons	633	870	1,700
Metalcutting machines	Units	3,360	3,200	7,500
Cement	Million metric tons	2.38	2.78	4.30
Flat glass	Million square meters	5.54	5	10
Tractors	Thousand units	2.50	4.2	17.1
Chemical fertilizers	Thousand metric tons	779	950	1,700
Textiles	Million linear meters	256	300	500
Footwear	Million pairs	24	37	41
Sewing machines	Thousand units	31	82	123
Bicycles	Thousand units	32	70	150
Grain	Million metric tons	5	5	6.6
Marine products	Thousand metric tons	840	800	1,200

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b. Agriculture

In 1964 the North Korean regime plans to expand the output of rice by an unspecified amount. Total production of grain is to be maintained at 5 million metric tons -- an unimaginative goal by Communist standards, considering that P'yongyang claims to have produced as much as 4.8 million metric tons of grain in 1961.* In December 1962, when the regime proclaimed that 1963 would be a year to consolidate past economic achievements and prepare for rapid economic growth in the future, goals of 3 million metric tons of rice and 200,000 tons of meat products were set for 1964. These goals were not restated in the recently published economic plan for 1964 -- no absolute figure for rice production was given and the target for meat was dropped to 130,000 tons -- and it is assumed that agricultural plans for 1963, in particular the expansion of acreage for dry field rice, have not been carried out successfully. 3/ Although in 1963 the growing season has been better than usual and although the regime has made progress in improving the irrigation system and increasing the supply of chemical fertilizers, it is believed that poor planning and administration will preclude any large gains in agricultural production in 1963 and probably in 1964. Commercial crops (tobacco, cotton, flax, hemp, and fruit) will be emphasized in 1964 in order to earn foreign exchange and to provide raw materials for light industry.

2. Problems and Prospects

The problems that have brought about the decision to slow the pace of economic development in 1964 are (a) continuing industrial bottlenecks, dating from late 1962, caused by poor planning and administration and inefficiency in the allocation of material and manpower resources, and (b) planning difficulties stemming from a basic change in relationships with the USSR and the European Satellites.

* According to the estimates of this Office, the actual production of grain in North Korea was 3.15 million metric tons in 1962, an increase of 90,000 tons above that of 1961.

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a. Industrial Problems

Some sectors of heavy industry have been especially unresponsive to administrative reforms advanced by the North Korean regime. The reorganization of the Heavy Industry Commission into separate ministries in September 1962 apparently did not improve the planning and administrative performance of individual mines and factories. In spite of increased investment in the mining industry in 1963, amounting to 21 percent above the previous year, it is unlikely that output of coal in 1963 will reach the goal of 15 million tons originally set for 1962. 4/ Similarly the establishment of a State Construction Commission early in 1963 to control the assignment of men and materials to local construction projects has not yet produced the desired results. Important construction projects such as the P'yongyang Thermal Powerplant and the rolling mill of the Nampo Smeltery continue to lag behind schedule. A lack of standardized plans, blueprints, and construction materials has been an important factor in retarding progress on construction sites.

b. Labor Shortages

One of the most serious domestic problems in North Korea is a deficiency of trained labor. Continuous industrialization, rapid expansion of the economy, and maintenance of a large standing army of about 330,000 men have strained North Korea's available manpower resources to the limit. In particular, the agricultural labor force has been seriously depleted in recent years because of a continual migration of workers to the cities. A recent traveler to North Korea was impressed by the number of women and children working the land. 5/ The regime's latest strategy apparently has been to "recruit" students into the working population. According to official statistics, total school enrollment decreased by 90,000 students -- from 2.64 million to 2.55 million -- between the end of 1962 and September 1963. 6/ This drop in school enrollment is the first recorded since the Korean War. It is likely that most of these former students have been directed into the agricultural labor force. It was recently announced that in 1964 the regime will "assign over 20,000 units of manpower, including new graduates of schools of various levels, to rural communities." Although this move may benefit agricultural production, the industrial labor force will continue to be shorthanded, especially in terms of technicians, skilled workers, and managers.

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c. Economic Relations with the USSR and the European Satellites

There is still no official confirmation of any change in economic relations between North Korea and the USSR in spite of North Korea's support of Communist China in the bitter Sino-Soviet dispute. Trade between the two countries continued to rise through 1962, and there is some evidence that economic aid and military assistance from the USSR continued as late as May 1963. The sharp reversal of priorities in the 1964 economic plan, however, strongly indicates a decision by P'yongyang to become less dependent on the USSR for industrial imports and for economic assistance in the future and may possibly reflect the imposition of sanctions by the USSR.

A long-term trade and assistance agreement signed in late 1960 provides for Soviet support in the latter part (1964-67) of the Seven Year Plan in expanding the annual capacity of the Kimchaek Iron Works to 1.8 million tons of steel -- almost two times the present capacity of the entire North Korean iron and steel industry. 7/ In addition, the agreement calls for assistance in the construction of two large thermal electric power stations, several flax and woolen mills, and an oil refinery with an annual capacity of 2 million tons. To date, the only projects underway are a 15,000-spindle flax mill in Hyesan and the P'yongyang Thermal Powerplant, and the regime has not publicized the role of Soviet assistance in either case. 8/ Failure to expand the steelmaking facilities of the Kimchaek plant according to plan will, by itself, be enough to preclude the successful completion of the Seven Year Plan. Since the economic plan for 1964 contemplates no large additions to industrial capacity "within a year or two," except in the field of consumer goods, it seems certain that the regime has chosen, at least temporarily, "self-reliance" rather than rapid economic growth through foreign assistance.

d. Prospects

Although North Korea has achieved an impressive record of economic development since the Korean War, prospects for sustaining economic growth in 1964 and beyond depend on the regime's ability to remedy industrial bottlenecks and to adjust short-run and long-term planning to

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an anticipated decline in the level of economic support from the USSR. If the regime fulfills its promise to expand production of consumer goods and to improve living conditions, the decision to slow the development of heavy industry will be cheerfully accepted by North Korea's long-suffering workers and peasants.

North Korea's drive to become the "Czechoslovakia of the Far East" will falter without continuing support from the USSR and the European Satellites in providing new machinery and equipment, technical assistance, and spare parts for heavy industry -- in particular for the key machine building, chemical, and iron and steel industries. Communist China has supplied no appreciable support to North Korean heavy industry in the past and is believed to be incapable of filling this gap in the near future. Several years would be required for North Korea to develop alternate sources of items now supplied by the USSR by importing from Japan or other non-Bloc countries. Furthermore, the North Korean armed forces have been completely supplied and equipped by the USSR, and fighting efficiency may be expected to drop if the flow of modern armaments, materiel, and spare parts is reduced.

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